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## ISSUE ALERT

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| To: | ALEC Members, Joint Committee on Finance, Revenue and Bonding |
| From: | John Stephenson, ALEC Communications and Technology Task Force Director<br>Jonathan Williams, ALEC Tax & Fiscal Policy Task Force Director |
| Date: | March 15, 2012 |
| Re: | **Raised Senate Bill 400** – Taxing Digital Goods |

We are writing on behalf of the American Legislative Exchange Council (ALEC) to express our serious concerns with the policy contained in Raised Senate Bill 400 (SB 400), which would create unclear, inconsistent tax obligations on digital products such as music, movies, video games, and books. Because of this, **ALEC opposes the policy contained in SB 400.**

Under SB 400, digital products like downloadable movies, video games, music, and periodicals would be subject to state sales and use taxes. But there is some confusion in the application of tl bill's provisions with existing law. Although SB 400 exempts "computer and data processing services," it remains unclear whether certain digital products will be subject to a proposed tax ra of 6.35% or the current 1% rate for computer and data processing services, leading to uncertaint for both Connecticut tax administrators and taxpayers. Additionally, a lack of clear sourcing guidance could lead to double-taxation. For example, a Connecticut resident who downloads a movie while on vacation in Maine could have tax obligations in both states. Moreover, an inconsistent approach to taxing digital goods could force Connecticut businesses and residents t look elsewhere so that they can shop and invest with more tax certainty.

Pursuant to ALEC's *Digital Goods and Services Tax Fairness Resolution*, ALEC supports a "federal-state framework that will ensure consumers of this new, innovative form of commerce are not subject to multiple, discriminatory and inconsistent state and local tax laws." Although at least thirteen states have enacted laws taxing digital goods, at least nine states have used administrative guidance to tax digital goods; one state, North Dakota, has exempted digital goods from taxation. Recently, Rhode Island rejected a proposal to tax digital goods. Understandably, definitions of taxable goods have varied. This inconsistent approach threatens to undermine the successful, innovative, and growing digital economy, which states like Connecticut should be working to improve rather than impede.

ALEC is sensitive to the federalism dynamics presented in this legislation, recognizing that taxation is a crucial sovereign power of the states; in fact, ALEC also believes that the aforementioned federal-state framework must ensure that "the authority of states is clarified to enable states to establish their own sustainable sources of revenue." But ALEC believes that coordination between the federal and state governments for determining how to tax digital goods is a better approach that respects principles of federalism while allowing an important and dynamic sector of our economy to thrive.

**For the foregoing reasons, ALEC *opposes* the policy contained in SB 400**. If you have any questions, please do not hesitate to contact John Stephenson at (202) 742-8524 or jstephenson@alec.org or Jonathan Williams at (202) 742-8533 or jwilliams@alec.org. Thank you for your consideration.

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